

**Ontario Northland Transportation  
Commission  
Consolidated Financial Statements  
For the year ended March 31, 2011**

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Consolidated Financial Statements  
For the year ended March 31, 2011**

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## Management's Responsibility

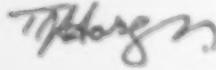
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The Ontario Northland Transportation Commission's management is responsible for the integrity and fair presentation of the consolidated financial statements and other information included in the annual report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The preparation of consolidated financial statements necessarily involves the use of management's judgment and best estimates, particularly when transactions affecting the current accounting period cannot be determined with certainty until future periods. All financial information in the annual report is consistent with the consolidated financial statements.

The Commission maintains systems of internal accounting controls designed to provide reasonable assurance that the financial information is accurate and reliable and that the Commission's assets and liabilities are adequately accounted for and assets safeguarded.

The Commission through its Audit and Finance Committee is responsible for ensuring that management fulfills its responsibilities for internal control and financial reporting. The Audit and Finance Committee is comprised of members of the Commission who meet regularly with management and external auditors to satisfy itself that each group has met its responsibilities. These consolidated financial statements have been reviewed by the Audit and Finance Committee and have been approved by the Commission.

These consolidated financial statements have been audited by the Auditor General of Ontario, whose responsibility is to express an opinion on whether they are fairly presented in accordance with Canadian generally accepted accounting principles. The Auditor's Report which follows outlines the scope of the Auditor's examination and opinion.



T. Hargreaves  
Chair



P. Goulet  
President and CEO

North Bay, Ontario  
June 28, 2011



**Office of the Auditor General of Ontario**  
**Bureau du vérificateur général de l'Ontario**

*Independent Auditor's Report*

To the Ontario Northland Transportation Commission  
and to the Minister of Northern Development, Mines and Forestry

I have audited the accompanying consolidated financial statements of the Ontario Northland Transportation Commission, which comprise the consolidated balance sheet as at March 31, 2011, and the consolidated statements of equity, operations and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

**Opinion**

In my opinion, these consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Ontario Northland Transportation Commission as at March 31, 2011 and the consolidated results of its operations, and its consolidated cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

**Emphasis of Matter**

Without qualifying my opinion, I draw attention to Note 1 in the consolidated financial statements which indicates that Ontario Northland Transportation Commission has experienced continued losses. Management of Ontario Northland Transportation Commission is projecting further losses in 2012 and a substantial cash flow deficiency which will cause it available lines of credit. These conditions, along with other matters as set forth in note 1, indicate the existence of a material uncertainty in that the Commission's ability to continue as a going concern is dependent on the continued financial support of the Ontario government.

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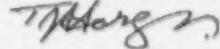
Toronto, Ontario  
June 28, 2011

  
Jim McCarter, FCA  
Auditor General  
Licensed Public Accountant

**Ontario Northland Transportation Commission  
Consolidated Balance Sheet**  
(dollars in thousands)

	March 31 2011	March 31 2010
<b>Assets</b>		
<b>Current</b>		
Cash (Note 3)	\$ 6,823	\$ 4,823
Accounts receivable (Net of allowance - \$3,684; 2010 - \$3,677)	20,579	18,468
Inventory	16,376	18,319
Prepaid expenses	983	1,348
	<hr/>	<hr/>
Property, plant and equipment (Schedule 1)	44,761	42,958
Accrued pension benefit asset (Note 4a)	307,351	297,381
	<hr/>	<hr/>
	\$ 410,002	\$ 398,989
<b>Liabilities and Province of Ontario Equity</b>		
<b>Current</b>		
Operating lines of credit (Note 5)	\$ 12,300	\$ 12,925
Accounts payable and accrued liabilities	31,236	29,383
Current portion of long-term debt	4,241	4,383
Current portion of capital lease obligation	24	11
Current portion of deferred revenue	322	616
	<hr/>	<hr/>
Deferred revenue	48,123	47,318
	759	828
Deferred contributions related to property, plant and equipment (Note 6)	108,581	89,078
Long-term debt (Note 7)	31,879	34,369
Capital lease obligation	-	24
Accrued non-pension benefit obligation (Note 4b)	68,334	64,232
	<hr/>	<hr/>
	257,676	235,849
<b>Equity</b>		
Retained earnings	147,688	158,645
Reserve for self insurance	4,638	4,495
	<hr/>	<hr/>
	152,326	163,140
<b>Nature of Operations (Note 1)</b>		
<b>Contingencies (Note 12) / Commitments (Note 13)</b>		
	\$ 410,002	\$ 398,989

Approved on behalf of the Commission:



Chair



President and CEO

**Ontario Northland Transportation Commission**  
**Consolidated Statement of Equity**  
(dollars in thousands)

	March 31 2011	March 31 2010
<b>Retained Earnings</b>		
Balance, beginning of year	158,645	184,413
Net loss for the year	(10,814)	(25,761)
Net transfer to Reserve for Self Insurance	(143)	(7)
<b>Balance, end of year</b>	<b>\$ 147,688</b>	<b>\$ 158,645</b>
<b>Reserve for Self Insurance (Note 9)</b>		
Balance, beginning of year	4,495	4,495
Transfers (to) from Retained Earnings		
Interest earned	43	23
Annual premium	100	100
Claims	-	(116)
	143	7
<b>Balance, end of year</b>	<b>\$ 4,638</b>	<b>\$ 4,495</b>
<b>Total Retained Earnings and Reserve for Self Insurance</b>	<b>\$ 152,326</b>	<b>\$ 163,140</b>

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

**Ontario Northland Transportation Commission**  
**Consolidated Statement of Operations**  
**(dollars in thousands)**

<b>For the year ended March 31</b>	<b>2011</b>	<b>2010</b>
<b>Revenues (Schedule 2)</b>	<b>\$ 160,072</b>	<b>\$ 144,924</b>
<b>Expenses (Schedule 2)</b>	<b>137,416</b>	<b>133,759</b>
<b>Income from operations, before other operational revenues and expenses</b>	<b>22,656</b>	<b>11,165</b>
<b>Other operational revenues and expenses</b>		
Amortization of property, plant and equipment (Schedule 2)	16,363	14,673
Amortization of deferred contributions related to property, plant and equipment (Schedule 2)	(3,063)	(2,321)
Pension expense (Schedule 2)	18,547	16,415
Write down of intangible assets	-	4,039
Sales tax assessment	-	1,556
Interest expense (Schedule 2)	1,871	2,063
Impairment of property, plant and equipment (Schedule 2)	1,322	-
Loss (gain) on sale of property, plant and equipment (Schedule 2)	(518)	413
<b>Loss from operations before the following items</b>	<b>\$ (10,866)</b>	<b>\$ (25,673)</b>
Investment and other income	(9)	(5)
Investment income on Reserve for Self Insurance	(43)	(23)
Claims on Reserve for Self Insurance	-	116
<b>Net loss for the year</b>	<b>\$ (10,814)</b>	<b>\$ (25,761)</b>

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

**Ontario Northland Transportation Commission**  
**Consolidated Statement of Cash Flows**  
(dollars in thousands)

<b>For the year ended March 31</b>	<b>2011</b>	<b>2010</b>
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net loss for the year	\$ (10,814)	\$ (25,761)
Items not affecting cash		
Amortization of property, plant and equipment	15,383	14,673
Amortization of deferred contributions related to property, plant and equipment	(3,063)	(2,321)
Loss (gain) on disposal of property, plant and equipment	(518)	413
Impairment of property, plant and equipment	1,322	-
Write-down of intangible assets	-	4,039
Amortization of intangible assets	-	545
Pension expense	<u>18,547</u>	<u>16,415</u>
	20,837	8,003
Changes in non-cash working capital balances		
Accounts receivable	(2,111)	(1,312)
Inventory	1,943	(695)
Prepaid expenses	365	(184)
Accounts payable and accrued liabilities	1,853	818
Deferred revenue	(363)	(259)
Net pension benefit obligation	(11,725)	(148)
Net non-pension benefit obligation	<u>(1,960)</u>	<u>(2,031)</u>
	8,839	4,192
<b>Investing activities</b>		
Investment in property, plant and equipment	(26,655)	(32,935)
Proceeds from sale of property, plant and equipment	<u>518</u>	<u>739</u>
	<u>(26,137)</u>	<u>(32,196)</u>
<b>Financing activities</b>		
Operating lines of credit	(625)	1,055
Long-term debt	(2,632)	(226)
Capital lease obligations	(11)	(72)
Deferred contributions related to property, plant and equipment	<u>22,566</u>	<u>24,599</u>
	<u>19,298</u>	<u>25,356</u>
<b>Change in cash during the year</b>	<b>2,000</b>	<b>(2,648)</b>
<b>Cash, beginning of year</b>	<b>4,823</b>	<b>7,471</b>
<b>Cash, end of year</b>	<b>\$ 6,823</b>	<b>\$ 4,823</b>
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid and included in net loss for the year	\$ 1,871	\$ 2,063

**Ontario Northland Transportation Commission**  
**Consolidated Schedule of Property, Plant and Equipment**  
**Schedule 1**  
(dollars in thousands)

<u>For the year ended March 31</u>	<u>2011</u>	<u>2010</u>		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
<b>Rail Services</b>				
Roadway	\$ 305,130	\$ 119,592	\$ 185,538	\$ 161,643
Buildings	43,217	19,086	24,131	24,036
Equipment	80,538	50,335	30,203	27,388
Equipment under capital lease	1,022	249	773	824
Under construction	3,871	-	3,871	17,035
<b>Telecommunications (Ontera)</b>				
Equipment	152,490	117,883	34,607	38,720
Buildings	6,460	4,143	2,317	2,490
Under construction	11,699	-	11,699	11,481
<b>Motor Coach Services</b>				
Coaches	8,589	5,884	2,705	3,141
Buildings	2,796	271	2,525	2,595
<b>Refurbishment</b>				
Equipment	585	105	480	500
Buildings	3,435	416	3,019	3,061
<b>Marine Services (Moosonee)</b>				
Vessels	385	368	17	20
Under construction	3,964	-	3,964	2,908
<b>Development</b>				
Land and buildings	2,851	1,349	1,502	1,539
	<b>\$ 627,032</b>	<b>\$ 319,681</b>	<b>\$ 307,351</b>	<b>\$ 297,381</b>

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

**Ontario Northland Transportation Commission**  
**Consolidated Schedule of Operating Revenues and Expenses**  
**Schedule 2**  
(dollars in thousands)

<b>For the year ended March 31</b>	<b>2011</b>	<b>2010</b>
<b>Rail Services</b>		
Sales revenue (Notes 10 and 16)	\$ 51,704	\$ 53,415
Government reimbursement (Note 8)	46,059	30,459
Operating revenue	97,763	83,874
Operating expense	73,629	70,029
Operating income	24,134	13,845
Amortization of property, plant and equipment	9,462	8,899
Amortization of deferred contributions related to property, plant and equipment	(2,192)	(1,439)
Pension expense	11,046	9,647
Loss (gain) on sale of property, plant and equipment	(517)	262
Interest expense	587	925
Income (loss) from operations	5,749	(4,449)
<b>Telecommunications (Ontera)</b>		
Sales revenue	31,949	32,662
Operating expense	26,297	26,862
Operating income	6,652	5,800
Amortization of property, plant and equipment	5,162	4,969
Amortization of deferred contributions related to property, plant and equipment	(871)	(882)
Pension expense	2,827	2,660
Impairment of property, plant and equipment (Note 11)	1,322	-
Sales tax assessment	-	1,556
Interest expense	937	667
Loss from operations	(2,726)	(3,170)
<b>Motor Coach Services</b>		
Sales revenue	11,050	10,583
Operating expense	10,807	10,429
Operating income	243	154
Amortization of property, plant and equipment	506	542
Pension expense	1,171	1,047
Loss on sale of property, plant and equipment	-	170
Interest expense	101	111
Loss from operations	(1,535)	(1,716)
<b>Refurbishment</b>		
Sales revenue	18,553	17,089
Operating expense	18,446	18,249
Operating income (loss)	108	(1,160)
Amortization of property, plant and equipment	85	85
Pension expense	1,886	1,708
Write down of intangible assets	-	4,039
Interest expense	140	250
Loss from operations	(2,003)	(7,242)

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

**Ontario Northland Transportation Commission**  
**Consolidated Schedule of Operating Revenues and Expenses**  
**Schedule 2 (continued)**  
**(dollars in thousands)**

<b>For the year ended March 31</b>	<b>2011</b>	<b>2010</b>
<b>Marine Services (Moosonee)</b>		
Sales revenue	153	156
Government reimbursement (Note 8)	41	41
	<hr/>	<hr/>
Operating revenue	194	197
Operating expense	247	182
	<hr/>	<hr/>
Income (loss) from operations	(63)	15
	<hr/>	<hr/>
<b>Rental Properties</b>		
Sales revenue	663	519
Operating expense	318	362
	<hr/>	<hr/>
Operating income	245	157
Amortization of property, plant and equipment	37	37
Gain on sale of property, plant and equipment	(1)	(19)
	<hr/>	<hr/>
Income from operations	209	139
	<hr/>	<hr/>
<b>Administration</b>		
Operating revenue	-	-
Operating expense	8,673	7,646
	<hr/>	<hr/>
Operating loss	(8,673)	(7,646)
Amortization of property, plant and equipment	111	141
Pension expense	1,618	1,353
Interest expense	106	110
	<hr/>	<hr/>
Loss from operations	(10,608)	(9,250)
	<hr/>	<hr/>
<b>Total Operations</b>		
Sales revenue	113,972	114,424
Government reimbursement (Note 8)	46,100	30,500
	<hr/>	<hr/>
Total revenues	160,072	144,924
Expenses	137,416	133,759
	<hr/>	<hr/>
Income from operations	22,656	11,165
Amortization of property, plant and equipment	15,363	14,673
Amortization of deferred contributions related to property, plant and equipment	(3,063)	(2,321)
Pension expense	18,547	16,415
Write down of intangible assets	-	4,039
Sales tax assessment	-	1,556
Interest expense	1,871	2,063
Impairment of property, plant and equipment (Note 11)	1,322	-
Loss (gain) on sale of property, plant and equipment	(518)	413
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Loss from operations	\$ (10,866)	\$ (25,673)
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The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

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## Ontario Northland Transportation Commission Notes to Consolidated Financial Statements

March 31, 2011

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### 1. Nature of Operations

The Ontario Northland Transportation Commission (the "Commission"), an Operational Enterprise of the Ontario government, delivers a variety of services, including rail freight, passenger rail, motor coach and telecommunications primarily in the north-eastern portion of Northern Ontario.

These financial statements have been prepared on a going concern basis. This assumes that the Commission will be able to realize its assets and discharge its liabilities in the ordinary course of business for the foreseeable future.

The Commission has a history of operating losses and cash flows that, without the support of the Government of Ontario, would be negative. With the completion of the latest pension fund valuation the Commission is committed to funding significant going concern and solvency deficits. The Commission's ability to maintain operations is dependent on the continued support from the Government of Ontario while completing plans to reduce pension deficits and minimize losses from operations while complying with regulatory requirements.

These consolidated financial statements do not reflect any adjustments that would be necessary if the going concern assumption were not applicable. If the going concern assumption were not applicable for these financial statements, adjustments to the carrying value of assets would be necessary and reported revenues and expenses and balance sheet classifications used to reflect these on a liquidation basis could differ from those applicable to a going concern.

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### 2. Significant Accounting Policies

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles. They include the accounts of the Commission and its wholly-owned subsidiaries, Ontario Northland International Consulting Services Inc, O.N. Tel Inc. (o/a Ontera), Air-Dale Limited and Nipissing Central Railway Company.

#### *Revenue Recognition*

Revenue from all sources are recognized when all of the following conditions are met:

- a) services are provided or products delivered to customers
- b) there is a clear evidence that an arrangement exists, and
- c) collection is reasonably assured.

Rail services revenues are generally recognized on completion of movements, with interline movements being treated as complete when the shipment is turned over to the connecting carrier.

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## Ontario Northland Transportation Commission Notes to Consolidated Financial Statements

March 31, 2011

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### **2. Significant Accounting Policies (continued)**

#### ***Revenue Recognition (continued)***

Contract revenues are generally recorded on a percentage of completion basis as work reaches predetermined project milestones.

Monthly subscriber fees in connection with wireless telecommunications services, internet services, network, local and long distance services are recorded as revenue as the service is provided. Any revenue or cost adjustments, whether positive or negative, in the interconnection and traffic settlement agreements are recognized in the year in which they become known and estimable.

#### ***Government Assistance***

Government assistance related to operating expenditures is recognized as revenue when the related expenditures are incurred.

The Province of Ontario reimburses the Commission for the cost of certain property, plant and equipment purchased for use in operations. The Commission records the contributions as deferred contributions related to property, plant and equipment. Deferred contributions related to property, plant and equipment are amortized to revenue on a straight-line basis at rates corresponding to those of the related capital assets.

#### ***Property, Plant and Equipment***

Property, plant and equipment are stated at acquisition cost less accumulated amortization. Amortization is provided for using the straight-line method over the estimated useful lives of the assets.

The estimated useful lives for principal categories of property, plant and equipment are as follows:

Roadway - main line and branches	20 to 50 years
Railway diesel locomotives	25 years
Railway cars	33 years
Buildings	50 years
Telecommunications equipment	15 to 25 years
Vehicles	3 years
Computer equipment	5 years
Coaches	12 years

No amortization is provided for on assets under construction until they are placed in use.

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## Ontario Northland Transportation Commission Notes to Consolidated Financial Statements

March 31, 2011

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### 2. Significant Accounting Policies (continued)

#### ***Employee Future Benefits***

**Pension Plans** - The Commission maintains a contributory defined benefit pension plan for its employees. It provides for pensions based on years of service and average pensionable earnings and is generally applicable from the first day of the month following employment. A Supplementary Employee Retirement Plan (SERP) also exists for employees who earn a lifetime pension amount in excess of the Canadian Income Tax Act's maximum. The obligations under the plan are determined using the accrued benefit method reflecting projected benefits for services rendered to date. The plans are not indexed; however, there have been a variety of ad hoc increases made to pensioners.

**Non-Pension Benefit Plans** - The Commission offers non-pension post retirement benefits such as group life, health care and long-term disability to employees through defined benefit plans. The costs associated with these future benefits are actuarially determined using the projected benefits method prorated on service and best estimate assumptions. In addition, as a Schedule 2 employer under the Workplace Safety and Insurance Board (WSIB), the Commission recognizes workers compensation benefits on an accrual basis using actuarial calculations provided by the WSIB for benefits in force, benefits not yet awarded and administrative loading costs.

Both Pension and Non-Pension expenses consist of current service costs, interest and adjustments arising from plan amendments, changes in assumptions and net actuarial gains or losses. These expenses are recorded in the year in which employees render services to the Commission. Net actuarial gains or losses and past services pension costs, in excess of 10 percent of the greater of the benefit obligation and the fair value of plan assets, are amortized on a straight-line basis over the expected average remaining service life of the employees covered by the plans (approximately 12 years).

Pension fund assets are valued using current market values. Prior services costs arising from all other sources, including the prospective initial application of CICA Handbook Section 3461, are amortized over the expected average remaining service period of active employees who are expected to receive benefits under the plan at the date of amendment.

#### ***Inventory***

Materials and supplies, with the exception of used rail and wheel-sets are valued at the lower of cost and net realizable value by using the weighted-average costing methodology. Used rail is shown at unamortized book value determined at the time of retirement. Wheel-sets are valued at standard cost. The Commission uses the same cost formulas for all inventories having a similar nature and use to the Commission. When circumstances which previously caused inventories to be written down no longer exist, that previous impairment is reversed.

The cost of inventory expensed to operations and used in capital projects for 2011 was \$ 24,397,000 (\$ 24,771,000 in 2010).

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## Ontario Northland Transportation Commission Notes to Consolidated Financial Statements

March 31, 2011

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### 2. Significant Accounting Policies (continued)

#### *Impairment of Property, Plant and Equipment*

Property, plant and equipment, subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. When quoted market prices are not available, the Commission uses the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the asset as an estimate of fair value.

#### *Foreign Currency Translation*

Monetary assets and liabilities denominated in foreign currencies are translated at the prevailing rates of exchange at the consolidated balance sheet date. Revenues and expenses are translated at the rates of exchange in effect at the transaction date. Realized and unrealized gains and losses are included in the determination of net income. Included in Rail revenue is a foreign currency gain of \$ 244,000 (2010 - \$853,000) arising mainly from Rail traffic settlements between Canada and the U.S.A.

#### *Financial Instruments*

All financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other liabilities.

Financial assets and liabilities classified as held-for-trading are required to be measured at fair value, with gains and losses recognized in net income.

Financial assets classified as held-to-maturity, loans and receivables and financial liabilities (other than those held-for-trading) are required to be measured at amortized cost using the effective interest method of amortization.

Available-for-sale financial assets are required to be measured at fair value with unrealized gains and losses recognized in Other Comprehensive Income. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market should be measured at cost.

The Commission uses the following classifications: cash is classified as held-for-trading; accounts receivable are classified as loans and receivables; and, accounts payable and accrued liabilities, operating lines of credit and long-term debt are classified as other liabilities.

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## Ontario Northland Transportation Commission Notes to Consolidated Financial Statements

March 31, 2011

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### 2. Significant Accounting Policies (continued)

#### *Income Taxes*

As an Operational Enterprise of the Province of Ontario, the Commission is exempt from income taxes. This exemption extends to its wholly-owned subsidiaries, and accordingly no tax provision is recorded in these financial statements.

#### *Accounting Estimates*

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the useful lives of property, plant and equipment, valuation allowances for accounts receivable and inventory and obligations for pension and non-pension post employment benefits. By their nature, these estimates are subject to measurement uncertainty. The effect of changes in such estimates on the financial statements in future periods could be significant. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in income in the year in which they become known.

#### *Cash*

Cash include cash on hand, balances with banks, and restricted cash.

#### *Comprehensive Income*

Comprehensive income is defined as the change in equity for transactions and other events from non-owner sources. Other Comprehensive Income refers to items recognized in comprehensive income that are excluded from net earnings. The Commission does not have any transactions that would affect comprehensive income thus no impact on financial statements.

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## Ontario Northland Transportation Commission Notes to Consolidated Financial Statements

March 31, 2011

### 3. Cash

	2011	2010
Cash	\$ 2,185,000	\$ 328,000
Cash related to Reserve for Self Insurance (Note 12)	4,638,000	4,495,000
 Cash	 <b>\$ 6,823,000</b>	 <b>\$ 4,823,000</b>

### 4. Employee Future Benefits

The Commission is the administrator of its contributory pension plan which covers all permanent staff. The pension fund assets primarily include marketable securities, real estate and corporate and government bonds, which are invested by professional investment managers. The ONTC pension plan has an annual measurement date of December 31<sup>st</sup>.

The Accrued Pension Benefit Asset or Obligation and expenses are determined annually by independent actuaries in accordance with accepted actuarial practices and Canadian generally accepted accounting standards using management's best estimates. The date of the most recent actuarial valuation for the contributory pension plan for funding purposes was January 1, 2010. The results of this valuation were extrapolated to December 31, 2010. In accordance with existing pension regulations, annual valuations will be completed for the Commission's pension plan. The date of the most recent report for accounting purposes for the non-pension post employment benefit plan was December 31, 2010. This report is completed annually.

The pension plan assets target percentage allocation and average asset allocations as at March 31, 2011 and March 31, 2010, by asset category are as follows:

	Target	2011	2010
Equity securities – Domestic	20% - 30%	26.3%	23.4%
– Foreign	10% - 30%	17.4%	17.5%
Debt securities	35% - 55%	52.8%	55.9%
Real estate	0% - 15%	1.8%	1.9%
Short term and other	0% - 15%	1.7%	1.3%
 Total		 <b>100%</b>	 <b>100%</b>

## Ontario Northland Transportation Commission Notes to Consolidated Financial Statements

March 31, 2011

### 4. Employee Future Benefits (continued):

#### a. Reconciliation of accrued benefit obligation to accrued benefit asset (liability):

##### Pension Plans:

	Pension	SERP	2011	2010
Accrued benefit obligation	\$ (459,814,000)	\$ (2,884,000)	\$ (496,319,000)	\$ (507,550,000)
Plan assets at fair value	452,857,000	-	452,857,000	422,865,000
Funded status – plan (deficit) surplus	(46,957,000)	(2,884,000)	(49,841,000)	(84,685,000)
Unamortized initial liability	-	196,000	196,000	392,000
Unamortized past service costs	10,633,000	61,000	10,694,000	12,586,000
Unamortized net actuarial (gain) loss	97,066,000	(224,000)	96,841,000	130,357,000
Accrued benefit asset (liability) net of valuation allowance – end of year	\$ 60,741,000	\$ (2,851,000)	\$ 57,890,000	\$ 58,650,000

The valuation allowance in the current and prior year was nil.

	Pension	SERP	2011	2010
Accrued benefit asset – beginning of year	\$ 61,394,000	\$ (2,744,000)	\$ 58,650,000	\$ 70,475,000
Expense	(12,194,000)	(291,000)	(12,485,000)	(11,973,000)
Funding contributions	5,676,000	184,000	5,760,000	148,000
Special payments	5,966,000	-	5,966,000	-
Accrued benefit asset – end of year	\$ 60,741,000	\$ (2,851,000)	\$ 57,890,000	\$ 58,650,000

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## Ontario Northland Transportation Commission Notes to Consolidated Financial Statements

March 31, 2011

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**4. Employee Future Benefits (continued):**

**b. Reconciliation of accrued benefit obligation to accrued benefit asset (liability)**

**Non-Pension Benefit Plans:**

	2011	2010
<b>Accrued benefit obligation - beginning of year</b>	<b>\$ (68,296,000)</b>	<b>\$ (62,632,000)</b>
Unamortized net actuarial gain	(38,000)	(1,069,000)
Adjustment to match booked position	-	(531,000)
<b>Accrued benefit liability - end of year</b>	<b>\$ (68,334,000)</b>	<b>\$ (64,232,000)</b>
	2011	2010
<b>Accrued benefit liability - beginning of year</b>	<b>\$ (64,232,000)</b>	<b>\$ (61,821,000)</b>
Expense – Non-WSIB	(3,699,000)	(3,671,000)
Expense – WSIB	(2,363,000)	(240,000)
Funding contributions – Non-WSIB	1,960,000	2,031,000
Adjustment to match booked position – Non-WSIB	-	(531,000)
<b>Accrued benefit liability - end of year</b>	<b>\$ (68,334,000)</b>	<b>\$ (64,232,000)</b>

Included in the accrued non-pension benefit liability are workers' compensation benefits in the amount of \$14,830,000 (2010 - \$12,467,000). This amount has been determined from the most recent available actuarial calculations provided by the Workplace Safety and Insurance Board as at December 31, 2010.

**Ontario Northland Transportation Commission  
Notes to Consolidated Financial Statements**

March 31, 2011

**4. Employee Future Benefits (continued):**

**c. Components of Net Periodic Pension Benefit expense**

	2011	2010
Current service cost less employee contributions	\$ 7,434,000	\$ 7,729,000
Interest on accrued benefit obligation	25,160,000	27,824,000
Expected return on plan assets	(28,871,000)	(27,643,000)
Amortization of initial obligation	196,000	197,000
Amortization of past service costs	1,892,000	1,892,000
Amortization of net actuarial loss	6,674,000	1,974,000
	<b><u>12,485,000</u></b>	<b><u>11,973,000</u></b>

**d. Components of Net Periodic Non-Pension Benefit Expense**

	2011	2010
Current service cost	\$ 3,431,000	\$ 1,136,000
Interest on accrued benefit obligation	2,631,000	2,920,000
Amortization of net actuarial gain	-	(145,000)
Adjustment to match booked position	-	531,000
	<b><u>\$ 6,062,000</u></b>	<b><u>\$ 4,442,000</u></b>

**e. Weighted Average Assumptions**

Discount rate - pension	6.00 %	5.00 %
Discount rate - non pension	6.25 %	5.75 %
Discount rate - WSIB	7.00 %	7.00 %
Expected long-term rate of return on plan assets	6.50 %	7.00 %
Rate of compensation increase		
2010 & 2011	0 %	1.5 %
2012 & 2013	0.5 %	2.0 %
2014 & thereafter	3.0 %	3.0 %
Average remaining service period (years)	12	12
Drug cost increases	5.0%	5.0%
Medical and hospital cost increases	5.0%	5.0%
Dental cost increases	4.5%	4.5%
Vision care cost increases	0%	0%

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## Ontario Northland Transportation Commission Notes to Consolidated Financial Statements

March 31, 2011

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### **5. Operating Lines of Credit**

The Commission currently holds an operating line of credit with the Ontario Financing Authority (OFA) in the amount of \$8,000,000, of which \$8,000,000 was being utilized as at March 31, 2011 (2010 - \$8,000,000) which bears interest at the Province of Ontario's cost of borrowing plus 5 basis points on the date of each advance. In addition, the Commission has a revolving operating line of credit with the OFA in the amount of \$7,000,000, of which \$4,300,000 was being utilized as at March 31, 2011 (2010 - \$4,925,000) which bears interest at the Province of Ontario's cost of borrowing plus 40 basis points based on the date of each advance.

The Commission also holds a demand operating line of credit with the Canadian Imperial Bank of Commerce in the amount of \$1,500,000 which is available for letters of guarantee and is secured by the Commission's accounts receivable. As of March 31, 2011, two letters of guarantee totalling \$1,428,000 (2010 - \$ 1,428,000) have been issued with an annual renewal commission of 0.375%.

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### **6. Deferred Contributions Related to Property, Plant and Equipment**

Deferred contributions related to property, plant and equipment represent the unamortized capital contributions received from the Ministry of Northern Development, Mines and Forestry to fund acquisitions of property, plant and equipment. The amortization of deferred contributions related to property, plant and equipment is recorded as revenue in the consolidated statement of operations at a rate equal to the amortization of the related assets.

The changes in the unamortized deferred capital contributions balance are as follows:

	2011	2010
<b>Balance - beginning of year</b>	<b>\$ 89,078,000</b>	<b>\$ 66,800,000</b>
Contributions from the Province	22,566,000	24,599,000
Amortization to revenue	(3,063,000)	(2,321,000)
 <b>Balance - end of year</b>	 <b>\$ 108,581,000</b>	 <b>\$ 89,078,000</b>

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## Ontario Northland Transportation Commission Notes to Consolidated Financial Statements

March 31, 2011

### 7. Long-term Debt and Capital Lease Obligation

#### a. Long-term Debt

	2011	2010
Loan from Ontario Financing Authority, bearing interest at 5.22% per annum, repayable in blended monthly payments of \$30,000 for 15 years beginning February 1, 2005	\$ 2,584,000	2,809,000
Loan from Ontario Financing Authority, bearing interest at 5.60% per annum, repayable in blended monthly payments of \$156,000 for 15 years beginning January 1, 2000.	6,315,000	7,789,000
Loan from Ontario Financing Authority, bearing interest at 6.37% per annum, repayable in blended monthly payments of \$109,000 for 15 years beginning September 1, 1999.	4,018,000	5,040,000
Loan from Ontario Financing Authority, bearing interest at 4.90% per annum, repayable in blended monthly payments of \$13,000 for 25 years beginning February 1, 2006.	2,024,000	2,083,000
Loan from Bank of Montreal, bearing interest at 5.11% per annum, repayable in blended monthly payments of \$64,000 for 10 years beginning April 30, 2008. Secured by a floating charge on all Ontera assets	4,509,000	5,031,000
Loan from Bank of Montreal, bearing interest at 5.95% per annum, repayable in blended weekly payments of \$32,000 for 15 years beginning October 7, 2010. Secured by a floating charge on all Ontera assets. Prior year construction advance converted to a fixed rate \$17,000,000 loan.	<u>16,670,000</u>	<u>16,000,000</u>
	36,120,000	38,752,000
<b>Less current portion</b>	<b>4,241,000</b>	<b>4,383,000</b>
<b>Long-term debt</b>	<b>\$ 31,879,000</b>	<b>\$ 34,369,000</b>

Interest on long-term debt was \$ 1,645,000 (\$ 1,426,000 in 2010).

Payments required in the next five years and thereafter are as follows:

2011-2012	\$ 4,241,000
2012-2013	4,490,000
2013-2014	4,770,000
2014-2015	3,788,000
2015-2016	1,987,000
<b>Thereafter</b>	<b><u>16,844,000</u></b>
	<b><u>\$ 36,120,000</u></b>

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**Ontario Northland Transportation Commission  
Notes to Consolidated Financial Statements**

March 31, 2011

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**7. Long-term Debt and Capital Lease Obligation (continued):**

**b. Capital Lease Obligation**

	<b>2011</b>	<b>2010</b>
Capital lease bearing interest at 7% per annum, repayable in blended monthly payments of \$1,000 for 5 years beginning September 22, 2006.	24,000	35,000
<b>Less current portion</b>	<b>24,000</b>	<b>35,000</b>
<b>Capital lease obligation</b>	<b>\$ -</b>	<b>11,000</b>
		<b>24,000</b>

Payments under capital lease included above are as follows:

2011-2012	<u>\$ 25,000</u>
Total minimum payments	25,000
Less: amount representing interest	1,000
<b>Obligations under capital lease</b>	<b>\$ 24,000</b>

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## Ontario Northland Transportation Commission Notes to Consolidated Financial Statements

March 31, 2011

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### **8. Government Reimbursement**

In accordance with a Memorandum of Understanding between the Commission and the Ministry of Northern Development, Mines and Forestry (the "Ministry"), certain operations of the Commission have been designated as non-commercial. The Commission and the Ministry have entered into annual contribution agreements which define the amount of compensation which the Ministry would provide each fiscal year.

A portion of the operating loss of the weekday passenger train service between North Bay and Toronto is reimbursed by the National Transportation Agency of Canada under Section 270 of the Railway Act. The federal government revoked the Railway Act during 1996 and replaced it with the Canada Transportation Act. A reimbursement of \$2,500,000 (2010 - \$2,500,000) was received for the year ended March 31, 2011.

Details of Government reimbursement received during the year are as follows:

	<b>2011</b>	<b>2010</b>
<b>Ministry of Northern Development, Mines and Forestry:</b>		
Rail - Passenger Service and Moosonee Branch	\$ 21,160,000	\$ 21,160,000
Marine Services (Moosonee)	40,000	40,000
One-time funding	<u>22,400,000</u>	<u>6,800,000</u>
	43,600,000	28,000,000
<b>National Transportation Agency of Canada:</b>		
Current year's operations	<u>2,500,000</u>	<u>2,500,000</u>
	<b>\$ 46,100,000</b>	<b>30,500,000</b>

The Commission is dependent on these reimbursements to carry out its non-commercial operations.

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## Ontario Northland Transportation Commission Notes to Consolidated Financial Statements

March 31, 2011

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### **9. Reserve for Self Insurance**

The Commission follows the policy of self-insuring for damages from rolling stock derailments and for cargo damage. Annually the Commission transfers \$100,000 from retained earnings to the Reserve for Self Insurance to finance such costs. Interest earned on the reserve balance and claims expensed in the reserve balance are recorded as revenue and expenses in operations then transferred to/from the reserve.

Reserve assets include cash in the amount of \$ 4,554,000 (2010 - \$ 4,411,000) plus \$ 84,000 (2010 - \$84,000) receivable from the Commission.

Periodically, the Commission borrows cash from the fund for its temporary use. The Commission pays interest to the Reserve at the bank's prime rate less 1.75% on these temporary borrowings.

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### **10. Passenger Revenue**

In compliance with the Travel Industry Act, the 2011 gross retail sales were \$ 245,000 (2010 - \$ 227,000) and the 2011 gross wholesale sales were \$ 158,000 (2010 - \$ 83,000).

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### **11. Impairment of Property, Plant and Equipment**

Impairment charges of \$1,322,000 for technologically obsolete telecommunications equipment of the Ontera division were recognized in operating income because the carrying amount of the long-lived asset was not recoverable and exceeded its fair value based on undiscounted cash flows.

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### **12. Contingencies**

#### **Statement of claim**

In the normal course of its operations, various statements of claim have been issued against the Commission claiming damages for personal injury, property damages, environmental actions and employment-related issues. Damages, if any, cannot be estimated at this time and in any event the Commission is of the opinion that these claims are unfounded or covered by insurance after application of a \$2,000,000 deductible. Should any loss result, it would be charged to operations when the amount is ascertained.

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## **Ontario Northland Transportation Commission Notes to Consolidated Financial Statements**

**March 31, 2011**

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### **13. Commitments**

The Commission is also obligated to certain job guarantee agreements with a significant number of its unionized employees. To the extent of any actual claims under these agreements, the Commission would maintain provisions for such items. Due to the nature of these agreements, the maximum exposure for future payments may be material. However, such exposure cannot be reasonably determined and no provision has been made as at the year-end date.

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### **14. Financial Instruments**

The Commission's financial instruments consist of cash and cash equivalents, accounts receivable, operating lines of credit, accounts payable and accrued liabilities and long-term debt.

#### **Fair value**

The fair value of cash and cash equivalents, accounts receivable, operating lines of credit, and accounts payable and accrued liabilities, are comparable to their carrying value due to their short-term maturity date. The fair value of long-term debt is approximately equal to its carrying value since the applicable interest rates are comparable to market rates.

#### **Financial Risk Management**

In the normal course of operations, the Commission is exposed to various risks such as commodity risk, credit risk, currency risk, interest rate risk and liquidity risk. To manage these risks, the Commission follows a financial risk management framework, which is monitored and approved by senior management with a goal of maintaining a strong balance sheet and optimizing free cash flow.

#### **Commodity Risk**

The Commission is exposed to commodity risk related to purchases of diesel fuel and the potential reduction in net income due to increase in the price of diesel. Because fuel expenses constitute a large portion of the Commission's operating costs, volatility in diesel fuel prices can have significant impact on the Commission's income. Items affecting volatility in diesel fuel include, but are not limited to, fluctuations in world markets for crude oil and distillate fuels, which can be affected by supply disruptions and geopolitical events. The impact to net income if diesel fuel prices increase by one cent per litre would be a decrease in net income by \$139,000. The impact of variable fuel expenses is mitigated substantially through a fuel surcharge program which apportions incremental changes in fuel prices to shippers within agreed upon guidelines.

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## Ontario Northland Transportation Commission Notes to Consolidated Financial Statements

**March 31, 2011**

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### **14. Financial Instruments (continued)**

#### **Credit risk**

The Commission is exposed to credit risk due to the concentration of large customers (see Economic Dependence - Note 16 for further details).

Credit risk associated with cash and cash equivalents is minimized substantially by ensuring that these financial assets are placed with: governments; major financial institutions that have been accorded strong investment grade ratings by a primary rating agency; and/or other creditworthy counterparties. An ongoing review is performed to evaluate changes in the status of counterparties.

Credit risk associated with accounts receivable is minimized by the Commission's program of credit evaluations of customers and limits the amount of credit extended when deemed necessary. The Commission maintains allowances for potential credit losses, and any losses to date have been within management's expectations.

The following table presents an analysis of the age of customers accounts receivable net of allowance as at the date of the financial statements.

**As at March 31, 2011**

Customer accounts receivables net of allowance		
for doubtful accounts (in thousands)	\$	18,010
Current	\$	1,870
30-60 days past billing date	\$	(75)
60-90 days past billing date	\$	336
90-120 days past billing date	\$	438
Greater than 120 days past billing date	\$	<hr/>
Trade accounts receivable	\$	<hr/> <b>20,579</b>

Fifty-two percent of the balance in the greater than 120 days past billing date (\$228,000) is due from one large customer.

The following table presents a summary of the activity related to the Commission's allowance for doubtful accounts.

Years ended March 31 (thousands)	2011	2010
Balance, beginning of year	\$ 3,677	\$ 3,172
Additions (provision for doubtful accounts)	242	614
Write-offs	(236)	(109)
Balance, end of year	<hr/> <b>3,684</b>	<hr/> <b>3,677</b>

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## **Ontario Northland Transportation Commission Notes to Consolidated Financial Statements**

**March 31, 2011**

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### **14. Financial Instruments (continued)**

#### **Credit risk (continued)**

The Commission must make significant estimates in respect of the allowance for doubtful accounts. Current economic conditions, historical information, why the accounts are past-due and line of business from which the customer accounts receivable arose are all considered when determining the amount of the allowance for doubtful accounts. The allowance for doubtful accounts is calculated on a specific-identification basis for doubtful customer accounts receivable over a specified dollar value. For the telecommunications division the allowance is based on a percentage of all outstanding customer accounts receivable balances.

#### **Currency risk**

The Commission is not exposed to significant concentrations of currency risk.

#### **Interest rate risk**

The Commission manages its cash according to its operational needs. The Commission is exposed to interest rate cash flow risk to the extent that the operating lines of credit have a floating rate of interest.

The Commission's long-term debt has fixed interest rates. The Commission expects to hold its long-term debt to maturity. As a result, management is of the opinion that the cash flow risks associated with long-term debt are not material.

#### **Liquidity Risk**

The Commission monitors its liquidity to ensure access to sufficient funds to meet operational requirements. The Commission manages its liquidity by forecasting its cash flow requirements and monitoring actual cash flows as well as by managing maturity profiles of financial assets and financial liabilities. The Commission does not use derivative instruments to reduce its exposure to liquidity risk.

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## **Ontario Northland Transportation Commission Notes to Consolidated Financial Statements**

**March 31, 2011**

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### **16. Capital Disclosures**

Management's objectives when managing capital are to safeguard the Commission's ability to continue as a going concern, so that it can continue to provide benefits to the Province of Ontario and to maintain an optimal capital structure to reduce the cost of capital.

The Commission's objectives when managing capital are:

- To support and promote northeastern Ontario economic development, job creation and community sustainability;
- To support, promote and enhance transportation and telecommunications linkages and clustering between communities within the region and between northeastern Ontario and other regions.

The Commission defines its capital as follows:

- Long term debt and capital leases, including the current portion thereof,
- Short term borrowing, and
- Retained earnings.

The Commission manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. The Commission requires approvals from the Province to maintain or adjust its capital structure. The Commission is not subject to any externally imposed capital requirements.

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### **16. Economic Dependence**

During 2011, the Rail Services Division derived 43% (2010 - 49%) of its revenue from three major customers.

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### **17. Comparative Figures**

Prior year's figures have been reclassified where necessary to conform to the current year's presentation.

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